

May 14, 2015

**COMMENTS ON BEHALF OF THE CITIES OF ANAHEIM, AZUSA, BANNING,  
COLTON, PASADENA, AND RIVERSIDE, CALIFORNIA ON THE STRAW  
PROPOSAL ON BIDDING RULES ENHANCEMENTS**

In response to the ISO's request, the Cities of Anaheim, Azusa, Banning, Colton, Pasadena, and Riverside, California (collectively, the "Six Cities") submit the following comments on the ISO's April 22, 2015 Straw Proposal on Bidding Rules Enhancements (the "Straw Proposal") other than issues relating to FERC Order No. 809<sup>1</sup>:

Sections 5.3.1 and 5.3.2 - - When a Scheduling Coordinator for a resource changes bids after a commitment decision has been made and during an inter-temporal constraint that would prevent the resource from complying with a dispatch instruction in response to the changed bid, the Straw Proposal recommends settlement based on the bid that led to the binding commitment. (Straw Proposal at 9). The Six Cities support this aspect of the Straw Proposal. Under circumstances where a bid is changed after a commitment decision, but the resource is not subject to a temporal constraint, the Straw Proposal recommends continued monitoring of settlement outcomes. (*Id.*) The Six Cities do not object to this aspect of the Straw Proposal.

Section 6.2.2 - - The Six Cities disagree with the ISO's overly restrictive definition of incremental fuel costs at page 13 of the Straw Proposal. Although some costs related to fuel procurement properly may be characterized as capacity-related, that is not the case with respect to costs that result directly from ISO dispatch instructions, such as balancing penalties. The ISO appears to simply assume, without support, that such costs can be recovered through payments for capacity. The Six Cities urge the ISO to develop a mechanism that will allow recovery of legitimate fuel-related costs that are driven by ISO dispatch decisions.

Section 6.3.2 - - Under the currently effective tariff provision, a resource that is not awarded a day-ahead schedule cannot rebid commitment costs in the real-time market. The Straw Proposal recommends changing this so that a resource without a day-ahead schedule would be permitted to rebid commitment costs in the real-time market at 75 minutes prior to the start of the flow day. (Straw Proposal at 17). The Six Cities support the proposal to allow resources to update bids for commitment costs in the real-time market, provided that commitment cost bids for resources that have market power are subject to effective mitigation. However, because gas prices can change significantly within a flow day, the Cities urge the ISO to allow updating of commitment cost bids on an hourly basis in the real-time market. Short-start resources can be dispatched on and off throughout a day in the real-time market, and hourly bidding for commitment costs (subject to the 125% headroom limit or other effective mitigation measure) will allow more accurate reflection of costs for gas purchased to respond to real-time commitments in the commitment cost bids.

Section 6.3.3 - - The Straw Proposal suggests a mechanism to allow recovery for the costs of intra-day gas purchases that exceed the gas price index plus the allowed headroom for gas costs. The proposed mechanism is based on after-the-fact documentation of gas costs that

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<sup>1</sup> The Six Cities submitted their comments on issues relating to FERC Order No. 809 on May 7, 2015.

exceed the gas index plus headroom amount. (Straw Proposal at 17-18). The Six Cities support the concept of allowing recovery of intra-day gas costs that exceed the gas index plus headroom allowance based on after-the-fact documentation. The Cities have three suggestions for refining this aspect of the Straw Proposal. First, the ISO's review and validation process should limit after-the-fact adjustments to the volume of gas necessary to respond to real-time commitment, which the Cities believe can be estimated based on Master File data. Second, the Straw Proposal discusses the application of a threshold that apparently would limit recovery of intra-day gas costs above the gas index. (*Id.*). The Cities request additional explanation for the proposed limiting threshold, as it is not clear why recovery of properly documented intra-day gas costs should be constrained by a pre-established threshold. If the level of intra-day gas costs claimed in a particular instance raises concerns with potential market manipulation, it should be possible to address such concerns on a case-by-case basis in the context of after-the-fact validation of claimed costs. Third, the Six Cities support recovery of the costs of gas procured to respond to an ISO dispatch that subsequently is exceptionally dispatched down or off. (Straw Proposal at 18).

Section 7.1 - - The Straw Proposal suggests consideration of differentiated bid caps for different elements of the proxy cost calculation. (Straw Proposal at 19-20). At this time, the Six Cities do not support the proposal for differentiated bid caps on the proxy cost components. Such fine tuning of the bid caps for different elements of commitment costs would increase the complexity of bidding on commitment costs, and no evidence has been presented that benefits of differentiated bid caps would be sufficient to justify the burden of such increased complexity for market participants or the ISO.

Section 7.3 - - The Straw Proposal discusses the possibility of allowing differentiated gas transportation adders based on proximity to the backbone delivery system or other factors. (Straw Proposal at 22). The Six Cities support the general concept of differentiated gas transportation adders if there are significant differences in gas transportation costs such that more granular allowances are necessary for resources to recover their costs. The Cities request that the ISO provide further analysis, however, with respect to the magnitude and consistency of locational differences in gas transportation costs.

Section 8.1 - - The Straw Proposal raises the potential for adding to resource Master Files information on "market" resource characteristics as well as physical resource characteristics. As the Six Cities understand the proposal, the purpose of including information on market characteristics of resources would be to enhance the efficiency of ancillary services commitment decisions by allowing consideration of economic factors not captured in the physical characteristics of a resource maintained in the Master File. (Straw Proposal at 24-25). On a preliminary basis, the Six Cities support this aspect of the Straw Proposal and recommend that the opportunity to include market characteristics in the Master File be available to all resources, rather than being limited to Resource Adequacy resources.

The Six Cities take no position at this time with respect to elements of the Straw Proposal that are not discussed above.

Submitted by,

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